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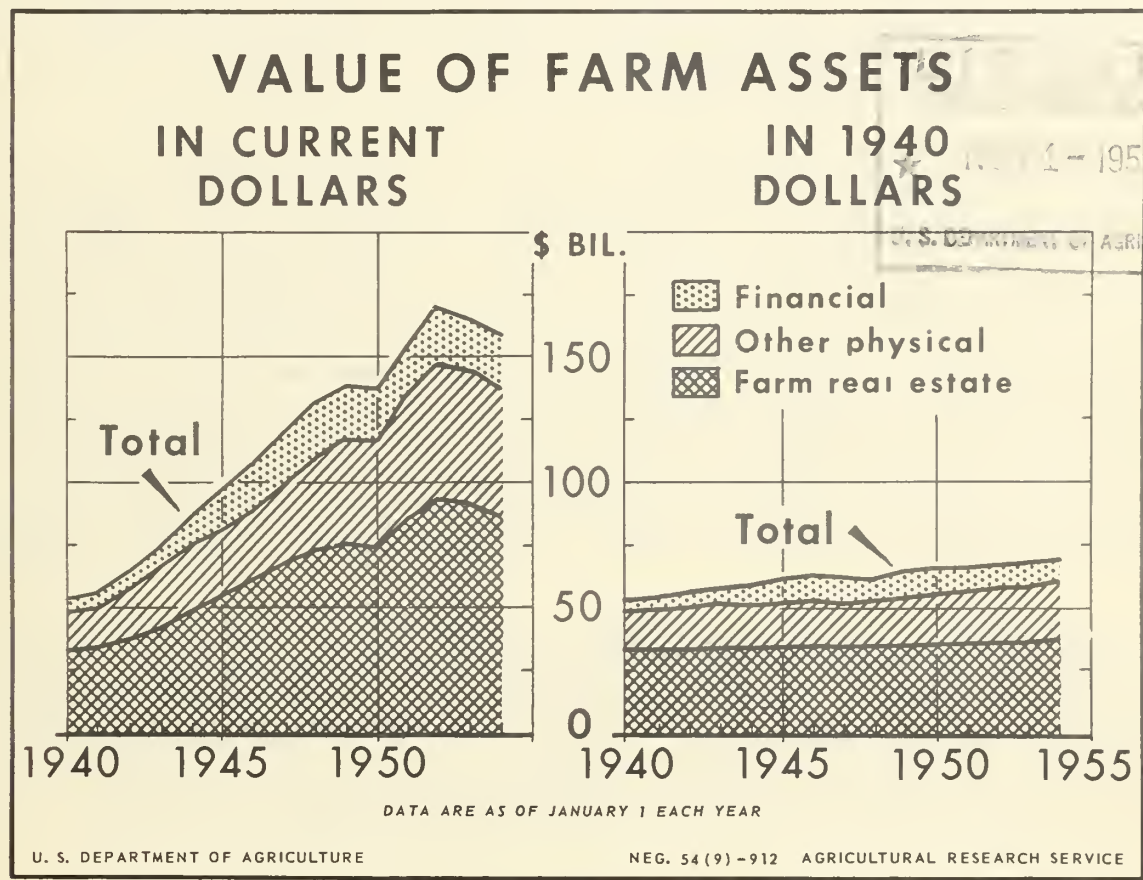
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AGRICULTURAL FINANCE OUTLOOK

Production Economics Research Branch
Agricultural Research Service
UNITED STATES DEPARTMENT OF AGRICULTURE

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1955 AGRICULTURAL FINANCE OUTLOOK

Approved by Outlook and Situation Board, October 20, 1954

FARM FINANCIAL OUTLOOK FOR 1955

Current prospects for the financial situation in agriculture suggest that for farmers as a group 1955 will not differ greatly from 1954. Net realized farm income should approach that of 1954 and the value of farm assets may be slightly lower but the change from 1954 should not be large. The new year will bring considerably better conditions for farmers in areas that were seriously affected by drought in 1954 if precipitation increases in those areas. However, farmers as a group will continue in 1955, and probably in several later years, to face the problem of adjusting to the cost-price squeeze in agriculture.

Expressed in constant prices, the physical assets of agriculture will total about the same at the beginning of 1955 as a year earlier. But due to the decline in land values and, to some extent, other prices, total current value of agricultural assets, including financial assets owned by farmers, is expected to be about \$156.5 billion on January 1, 1955 (table 1). This would be 8 percent below the peak first-of-year value of \$170.1 billion in 1952 but 46 percent above 1946, the first postwar year when total assets were valued at \$107.3 billion. Principal declines from the 1952 peak values are in farm real estate and livestock. Farm real estate has fallen in value nearly \$9 billion, or about 9 percent; livestock has fallen about \$8 billion, or more than 40 percent. These declines were partly offset by increases in machinery and motor vehicles, crop inventories, and household goods, totaling \$2.4 billion, and by an increase of \$0.8 billion in financial assets owned by farmers.

During 1954, all classes of physical farm assets, except household furnishings and equipment, apparently will show some decline in value. Financial assets owned by farmers on January 1, 1955, probably will total about the same as a year earlier. An increase in farmers' time deposits, United States savings bonds, and investments in cooperatives is indicated but their demand deposits and currency holdings are expected to decline slightly.

As measured by valuations in constant 1940 prices farm real estate and household furnishings and equipment will show a gain during 1954 because construction of buildings and fences and purchases of household equipment will more than offset depreciation. The reverse is true of machinery and motor vehicles, which, for the first time since the early thirties, will not be fully maintained by replacements and new purchases. Crop and livestock inventories, expressed in 1940 prices, are expected to show little change for the year.

Farm debts on January 1, 1955, are expected to show little change from a year earlier. Farm mortgage debt continues to increase in 1954; by the year-end it may have increased as much as \$0.5 billion. Price-support

Table 1.- Balance sheet of agriculture, January 1, 1954 and estimated for January 1, 1955

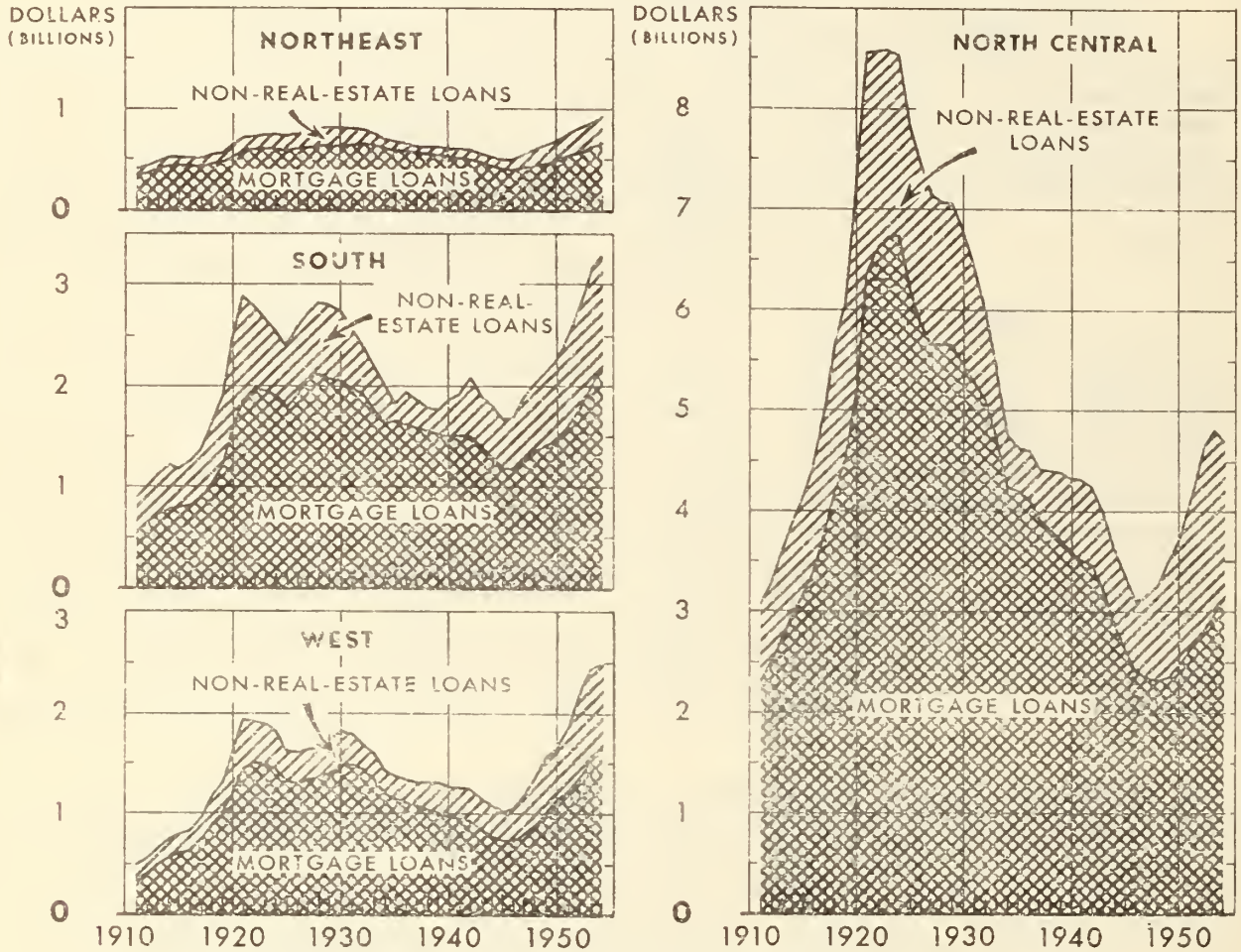
| Item | January 1, 1954 | Estimated for January 1, 1955 | Percentage change |
|---|----------------------------|----------------------------------|----------------------|
| | <u>Billion dollars</u> | <u>Billion dollars</u> | <u>Percent</u> |
| ASSETS | | | |
| Physical assets: | | | |
| Real estate----- | 87.6 | 85.0 | -3.0 |
| Non-real-estate----- | 50.3 | 49.5 | -1.6 |
| Financial assets----- | 21.9 | 22.0 | +0.5 |
| Total----- | 159.8 | 156.5 | -2.1 |
| CLAIMS | | | |
| Liabilities: | | | |
| Real estate debt----- | 7.7 | 8.2 | +6.5 |
| Non-real-estate debt----- | | | |
| Loans held and guaran- teed by Commodity Credit Corporation---- | 2.4 | 2.1 | -12.5 |
| Other----- | 7.0 | 6.9 | -1.4 |
| Total liabilities----- | 17.1 | 17.2 | +0.6 |
| Equities----- | 142.7 | 139.3 | -2.4 |

loans of farmers, made or guaranteed by the Commodity Credit Corporation, are expected to be about \$0.3 billion lower than a year earlier, largely because of the smaller crops of cotton and wheat produced in 1954. Other non-real-estate debts of farmers, which are incurred mainly to meet current expenses of crop production and to buy livestock, feed, motor vehicles, and farm machinery, appear likely by year-end to approximate the amount owed at the beginning of 1954. However, they will be considerably below the amount owed at the beginning of 1953.

As a result of declining asset values, equities of farmers and other owners of farm properties are expected to drop about \$3.4 billion, or 2.4 percent, during 1954. This would bring them to \$139.3 billion, or 10.5 percent, below the peak level of \$155.6 billion reached at the beginning of 1952.

FARM LOANS

TOTAL MORTGAGE LOANS, AND NON-REAL-ESTATE LOANS HELD BY BANKS AND FEDERALLY SPONSORED AGENCIES,* BY REGIONS



*ALL STATE AND NATIONAL BANKS PRIOR TO 1935, INSURED COMMERCIAL BANKS 1935 AND THEREAFTER
JAN. 1 DATA; EXCLUDING LOANS HELD OR GUARANTEED BY COMMODITY CREDIT CORPORATION

Figure 1

In 1955, cash receipts from farming may be somewhat under the \$30 billion estimated for 1954, reflecting further acreage restrictions on cotton and wheat and the moderately lower support price established for the 1955 wheat crop. But with some further reduction in farm production expenses realized net income of farm operators in 1955 should approach that of 1954.

Some small further decline in the total value of agricultural assets may occur in 1955. Farm real estate may be down slightly and farmers might again, as in 1954, hold purchases of motor vehicles and farm machinery below the rate of depreciation. The number of horses, mules, and cattle is expected to drop again in 1955 and this could reduce the total value of livestock on farms. The value of crop inventories and of financial assets owned by farmers will probably change very little but the value of household furnishings and equipment is still rising and it may continue to rise in 1955. Farm mortgage debt probably will increase again in 1955. Non-real-estate debt of farmers (excluding price-support loans) is expected to show little change. The amount of price-support loans will probably be lower on January 1, 1956, than a year earlier.

IMPLICATIONS OF THE OUTLOOK

Despite drought and acreage controls in 1954, supplies of agricultural products remain large. Domestic demand for farm products has been maintained at a high level, but gradual shifts in domestic demand and the sharp decline in export demand since 1951 has called for reduced production of several important crops. If the economy remains prosperous, increases in population will gradually increase our domestic demand for farm products. But continued controls over production of some crops will be in effect in 1955 and possibly, for several later years.

The present capacity of agriculture assures an abundance of food and fiber for the Nation but it also means that farmers must hold some productive capacity in reserve to avoid flooding markets and depressing prices. Farmers will be aided in avoiding overproduction by acreage allotments, marketing quotas, and possibly other programs. Moreover, efforts are being made to stimulate both domestic consumption and exports of agricultural products. But, individually, farmers can do much to keep production in line with market demand. If all farms had been so operated as to maintain fertility and control erosion, surpluses of many farm crops would be considerably smaller than they are today.

The next year will be a propitious time for farmers to take out of cultivation their less fertile acres and to seed grass and legumes on land subject to erosion. These measures will hold the soil in place and build up fertility on which farmers can capitalize when markets improve. On farms where more livestock or dairy production will ultimately be profitable it might be well to begin now to change cropping systems and to establish the pastures that will be needed later. The resulting increases in livestock production would come at a later time when market outlets may be somewhat larger.

Farmers producing crops under allotments and quotas need also to seek methods of reducing his costs in order to minimize the reduction in net income that may result from reduced output. Mechanization of operations and changes in the nature and arrangement of buildings, would permit many farmers to make substantial savings in labor costs. Per unit costs of producing cash crops can often be reduced by use of more fertilizer on fewer acres. Feed costs can often be reduced through use of lime, fertilizer, and improved varieties of feed crops, grasses, and legumes, and through culling unprofitable dairy and beef cattle. Some farmers may find it profitable to adopt less intensive systems of farming and to find part-time employment in nonfarm enterprises if available.

The farming adjustments that lie ahead, whether adopted voluntarily or as a result of production controls, may for a time reduce farmers' cash receipts. In some cases, they may require considerable investment of new capital. Farmers who have accumulated substantial financial reserves or who have large unused borrowing power can make these adjustments easily. But to heavily indebted farmers, including the many young farmers who have had little time to build up their equities and financial reserves, the required adjustments may bring hardship. Such farmers may need to explore all possible ways of reducing costs, for family living as well as for production.

Many farmers may need credit to make the adjustments suitable for their farms, particularly if substantial investments of new capital are required. Lending agencies can do much to facilitate these changes by familiarizing themselves with the farm-adjustment problems of the areas in which they operate and by adapting their loan policies, so far as is feasible, to farmers' needs. Loans that extend for 2 or 3 years, with payments timed to borrowers' prospective incomes, would often be better suited to farmers' needs than would short-term renewable loans.

The emergency production loans available from the Farmers Home Administration to farmers in the drought areas may help some farmers in adjusting their production programs. These loans are not made for the purpose of reorganizing farming systems and their total amount is small compared with the credits obtained elsewhere for production purposes. But account is necessarily taken of acreage allotments and marketing quotas when applications for emergency loans are considered, and loans are made to seed pastures and to grow unallotted feed and cash crops on diverted acres. Thus these loans may help farmers to take the first steps toward adjusting their farming systems, even though their primary purpose is to enable farmers to carry on with their present systems of farming.

Notwithstanding the fact that farm income has declined considerably in the last 2 years, most farmers appear to have adjusted their expenditures to lower incomes. Some have had to increase their debts but others have reduced theirs. Farm mortgage debt has been increasing since 1945, and in the last 5 years the rate of increase has been 7 to 9 percent a year. But farmers' non-real-estate debts declined last year and probably will remain fairly stable, except for seasonal variations, during the present year. Moreover, farmers, as a group, have increased their liquid savings in the form of time deposits and United States savings bonds in the last 2 years. If farm income

remains near present levels, farmers generally, except those in drought areas, may be expected to maintain their financial positions pretty well despite the cost-price squeeze and any need for adjusting their production programs.

The credit situation in agriculture remains generally favorable. Approximately 70 percent of the farms in the country are not mortgaged; relatively few farmers have debts that are burdensome at current income levels; and payments of farm debts remain at a high level. Supplies of funds for making both mortgage loans and non-real-estate loans to farmers are generally adequate. Interest rates have eased during the last year. Production emergency loans have been made available by the Farmers Home Administration to farmers in drought areas. Regardless of location special livestock loans are available to livestock farmers who may be temporarily unable to finance their current operations through other credit agencies. In drought areas, carryover of short-term production loans has increased substantially but payments on farm mortgage loans have been well maintained.

Significant costs in farming, which often are overlooked, are those for taxes and insurance. Usually, farmers can do little to reduce these costs. With regard to insurance, it would benefit farmers in many instances to increase expenditures. For example, rising values and construction costs during recent years have left large numbers of farm buildings underinsured against fire, windstorm, and other hazards. Also, it is likely that many farm operators do not carry adequate life insurance. Further, because of heavy mechanization and increased investment in the farming business since World War II, the need for liability insurance has risen greatly. As farm people come to recognize their need for protection against these various risks their expenditures for insurance will increase.

Property taxes of farmers, because of the continuing rise in State and local expenditures, probably will increase in 1955. However, Federal income taxes paid by farmers will be lower than in other recent years because of the decline in farm incomes in 1954 and the change in the tax laws. Recent changes in the Federal income-tax laws will benefit farmers in several ways. Not only were income tax rates lowered for 1954, but more liberal deductions are allowed by the new Revenue Code in computing taxable income. These new provisions include, among other things, a more inclusive definition of dependents, more liberal allowances for medical expenses, contributions, and expenses of soil and water conservation, faster depreciation of farm machinery, a longer period for carryover of operating losses, and a larger credit for retirement income.

Amendments in 1954 to the Social Security law may have great long-run implications to farmers. In 1955 old age and survivors insurance will be extended to about 3 million farm operators and to an additional 2 million hired farm workers. This insurance will require payment of new taxes by farmers and hired farm workers, but it will provide them with income upon retirement after attaining age 65. In the event of death, after meeting minimum requirements as to covered quarters, it will provide benefits to their wives and minor children. A few of the older farm operators and hired

farm workers will be able to qualify for retirement income in the latter half of 1956. Income payable under this law, which may run as high as \$162.80 per month for a retired farmer and his wife, should encourage older farmers to transfer management, or ownership, of their farms. They will be less dependent on income from the farm than formerly.

FARM REAL ESTATE

The total value of farm real estate (land and buildings) is expected to be about \$85 billion by January 1, 1955, about \$2.6 billion or 3 percent less than a year earlier. The year 1954 is the third consecutive one in which the aggregate value of this asset will have declined. The total decline for the 3 years would be about \$8.7 billion, or 9 percent.

Farm real estate value remained essentially unchanged in three-fourths of the States between March 1 and July 1, 1954. Small increases occurred in a few States, mainly in the eastern part of the country, but these were offset by similar declines in several Mountain States. Values as of July 1 averaged 4 percent below a year earlier and 7 percent below the post-Korean peak in July 1952 (fig.2). Largest declines since that peak have been in the Mountain States and in States in the drought area. Values have declined less than 5 percent in 10 States, most of which were along the eastern seaboard but which also include Indiana, Michigan, and North Dakota.

Sales activity during the first half of 1954 was probably at a somewhat lower rate than in the previous year. Prospective buyers were conservative with respect to the price they were willing to pay in view of their expectations of the future trend in farm income and the risks associated with debt obligations. Prospective sellers were inclined to hold asking prices near the level of a year or two ago and few were under financial pressure to sell.

Tentative indications from an October survey of farm real estate dealers and others are that the general situation has changed little since mid-year. Prices have weakened slightly since midyear and sales activity has been reduced further, particularly in the drought areas. Three years of dry weather and reduced farm output in parts of the present drought areas have depleted the financial reserves of many potential buyers and have temporarily discouraged the purchase of land. Despite these conditions, local observers noted only a few distress transfers and only a slight reduction in prices paid for the better grades of land.

As in 1953, a substantial proportion of prospective buyers require more credit to finance the purchase of farms than can be obtained under the present loan standards of many lenders. Although interest rates on farm mortgages have been reduced since midyear, and maximum loan limits per acre have been increased in the better land areas of the Midwest, comparable easing of credit has occurred in only a few areas elsewhere. Thus, difficulties in obtaining financing for the typical prospective buyer are likely to continue as a factor limiting sales activity in many parts of the country unless lending policies are liberalized further.

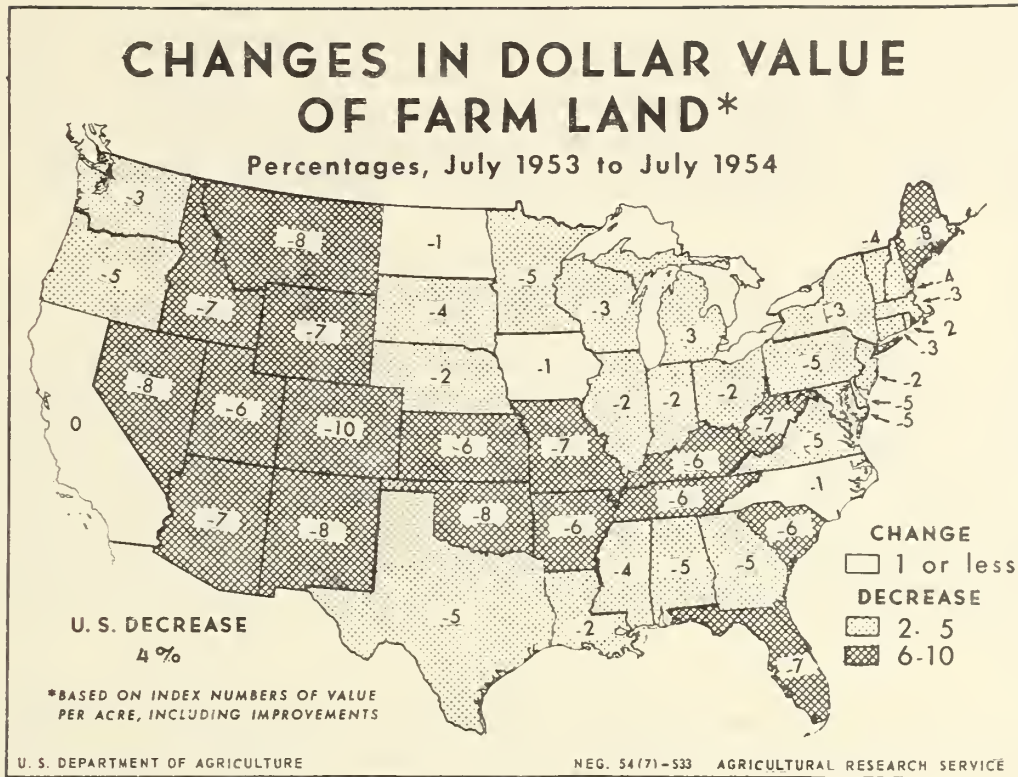


Figure 2

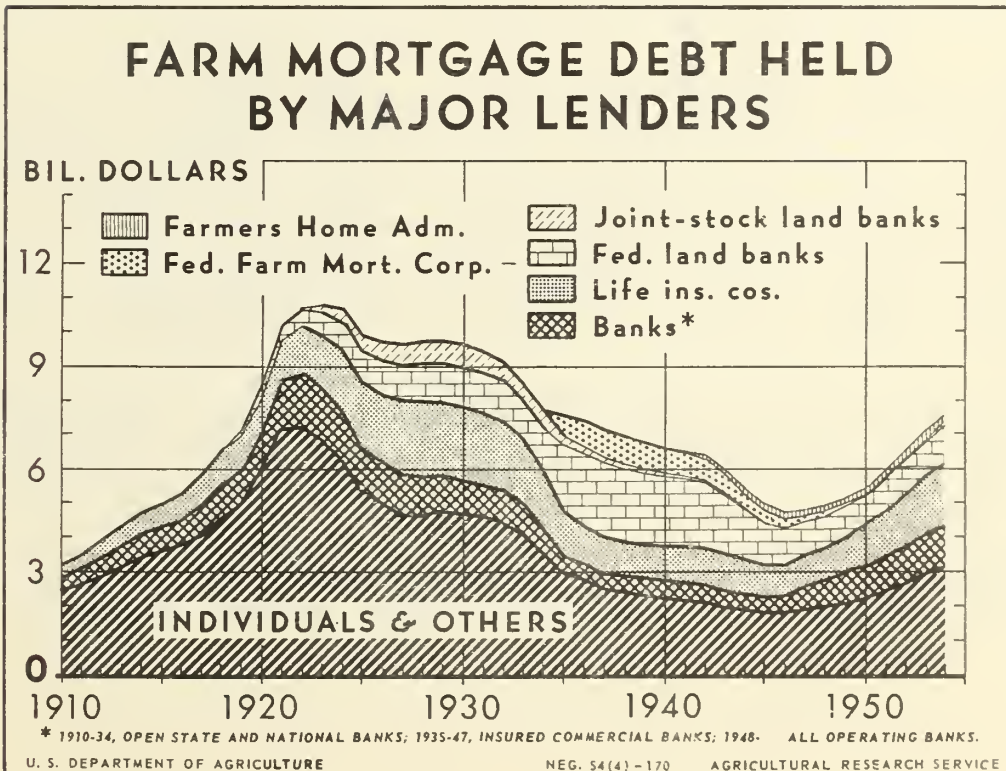


Figure 3

Relatively stable prices of farm commodities thus far in 1954, in contrast to a steady decline from August 1952 through November 1953, and little change in overall economic conditions, have probably been the major factors sustaining land values during the first half of the year. However, the downward drift in values that began about mid-1952 apparently has been resumed in recent months and seems likely to continue into 1955. It may be more pronounced in areas subject to acreage restrictions on cotton and wheat.

FARM-MORTGAGE DEBT

The outlook is for a further increase in farm-mortgage debt and in the amount of mortgage interest paid by farmers in 1955. Interest rates on new farm mortgage loans are expected to average a little lower than in the first half of 1954. The supply of mortgage money is expected to be generally adequate with fairly sharp competition among lenders for loans in the better farming areas and for well-secured loans in all areas. Lenders will probably continue to be cautious in areas usually subject to drought and other weather hazards, and loans will probably be adjusted to reflect acreage allotments.

Farm-mortgage debt totaled \$7.7 billion at the beginning of 1954 (table 2, fig. 3). This was 7 percent higher than a year earlier, and 61 percent above the amount on January 1, 1946 (figs. 4 and 5). During 1954 the debt has continued to increase, and by January 1, 1955, it will probably amount to about \$8.2 billion. As in recent years, the trend is continuing for a larger proportion of total farm-mortgage debt to be held by life insurance companies and the Federal land banks (fig 6). The amount of interest paid on farm-mortgage debt is expected to be approximately \$380 million in 1954; in 1955 it may be as much as \$405 million.

The demand for farm-mortgage credit has continued strong this year. It is expected to continue strong in 1955 also, although many farmers are more reluctant to increase their debts. The amount of mortgage credit used to finance farm real estate purchases probably changed little in 1954. July 1954 farm real estate values per acre averaged 4 percent less than a year earlier, and the number of farm real estate transfers in 1954 is lower. But more farm real estate sales involve credit financing, and the resulting debt averages higher in relation to the sale price of the property.

All or part of the proceeds of a substantial number of farm-mortgage loans are being used to refinance existing debts of farmers. Data from a sample of the last 100 loans closed by each of the 12 Federal land banks prior to June 15, 1954, showed that 48 percent of the loan proceeds were to be used to refinance real estate debt as compared to 44 percent a year earlier (table 3). The proportion used to refinance non-real-estate debt was unchanged at 12 percent, and the proportions used to buy real estate, make land and building improvements, and for other purposes were smaller.

Table 2.-Farm-mortgage debt: Total outstanding and percentages held by major lenders, by principal regions, January 1, 1940, 1945, and 1950-54

| Region | Total farm-mortgage debt | Distribution by lender | | | | | | |
|-----------------------|--------------------------|------------------------|-----------------------------------|------------------------|-----------------------------|--------------------------|----------|------------------------|
| | | Federal land banks | Federal Farm Mortgage Corporation | Joint-stock land banks | Farmers Home Administration | Life insurance companies | Banks 1/ | Individuals and others |
| | 1,000 dollars | Percent | Percent | Percent | Percent | Percent | Percent | Percent |
| United States: | | | | | | | | |
| 1940 ----- | 6,586,399 | 30.5 | 10.8 | 1.4 | 0.5 | 15.0 | 8.1 | 33.7 |
| 1945 ----- | 4,940,915 | 24.5 | 7.0 | .1 | 3.9 | 19.0 | 9.1 | 36.4 |
| 1950 ----- | 5,579,278 | 16.2 | 1.1 | 2/ | 3.4 | 21.0 | 16.8 | 41.5 |
| 1951 ----- | 6,071,345 | 15.6 | .7 | --- | 3.5 | 22.4 | 16.6 | 41.2 |
| 1952 ----- | 6,588,270 | 15.1 | .5 | --- | 3.5 | 23.4 | 15.9 | 41.6 |
| 1953 3/ ----- | 7,154,038 | 15.0 | .3 | --- | 3.6 | 24.0 | 15.4 | 41.7 |
| 1954 4/ ----- | 7,659,691 | 15.3 | .2 | --- | 3.5 | 24.7 | 14.8 | 41.5 |
| Northeast: | | | | | | | | |
| 1940 ----- | 522,654 | 19.1 | 7.6 | 1.3 | .1 | .2 | 11.2 | 60.5 |
| 1945 ----- | 408,653 | 18.2 | 6.7 | --- | 1.5 | .6 | 11.8 | 61.2 |
| 1950 ----- | 515,100 | 13.2 | 1.2 | --- | 2.0 | 4.3 | 24.7 | 54.6 |
| 1951 ----- | 539,134 | 12.8 | .9 | --- | 2.1 | 5.0 | 25.2 | 54.0 |
| 1952 ----- | 573,756 | 12.3 | .6 | --- | 2.1 | 5.6 | 24.9 | 54.5 |
| 1953 3/ ----- | 618,742 | 12.0 | .4 | --- | 2.1 | 5.9 | 24.9 | 54.7 |
| 1954 4/ ----- | 661,531 | 12.0 | .3 | --- | 1.9 | 6.0 | 24.4 | 55.4 |
| North Central: | | | | | | | | |
| 1940 ----- | 3,599,505 | 30.5 | 10.7 | 1.3 | .2 | 19.5 | 6.3 | 31.5 |
| 1945 ----- | 2,622,978 | 25.0 | 6.4 | .2 | 2.2 | 26.5 | 8.4 | 31.3 |
| 1950 ----- | 2,471,014 | 17.1 | 1.0 | 2/ | 1.9 | 26.0 | 16.5 | 37.5 |
| 1951 ----- | 2,647,950 | 16.8 | .7 | --- | 2.0 | 27.2 | 16.9 | 36.4 |
| 1952 ----- | 2,819,679 | 16.4 | .5 | --- | 2.2 | 28.4 | 16.4 | 36.1 |
| 1953 3/ ----- | 2,981,414 | 16.8 | .3 | --- | 2.3 | 28.8 | 16.0 | 35.8 |
| 1954 4/ ----- | 3,110,690 | 17.6 | .2 | --- | 2.2 | 29.4 | 15.5 | 35.1 |
| South: | | | | | | | | |
| 1940 ----- | 1,502,187 | 35.3 | 12.0 | 2.1 | 1.4 | 14.8 | 8.5 | 25.9 |
| 1945 ----- | 1,184,935 | 26.7 | 8.1 | .1 | 10.0 | 15.8 | 9.8 | 29.5 |
| 1950 ----- | 1,470,261 | 17.9 | 1.2 | --- | 7.7 | 22.3 | 18.9 | 32.0 |
| 1951 ----- | 1,644,845 | 16.8 | .8 | --- | 7.6 | 23.4 | 17.8 | 33.6 |
| 1952 ----- | 1,814,082 | 16.1 | .5 | --- | 7.3 | 24.1 | 16.8 | 35.2 |
| 1953 3/ ----- | 2,025,180 | 15.6 | .3 | --- | 7.1 | 25.4 | 16.2 | 35.4 |
| 1954 4/ ----- | 2,201,207 | 15.7 | .2 | --- | 6.7 | 26.7 | 15.6 | 35.1 |
| West: | | | | | | | | |
| 1940 ----- | 962,053 | 29.4 | 11.3 | .7 | .1 | 6.3 | 12.5 | 39.7 |
| 1945 ----- | 724,349 | 22.6 | 7.6 | 2/ | 1.6 | 7.4 | 8.9 | 51.9 |
| 1950 ----- | 1,122,903 | 13.5 | 1.0 | --- | 1.6 | 16.1 | 11.2 | 56.6 |
| 1951 ----- | 1,239,416 | 12.9 | .7 | --- | 1.9 | 17.9 | 10.5 | 56.1 |
| 1952 ----- | 1,380,753 | 12.1 | .5 | --- | 2.1 | 19.6 | 9.8 | 55.9 |
| 1953 3/ ----- | 1,528,702 | 11.8 | .3 | --- | 2.2 | 20.1 | 9.4 | 56.2 |
| 1954 4/ ----- | 1,686,263 | 11.8 | .2 | --- | 2.2 | 21.1 | 8.5 | 56.2 |

1/ 1940 and 1945, insured commercial banks; 1950 to date, all operating banks.

2/ Less than 0.05 percent.

3/ Revised.

4/ Preliminary.

Table 3.- Percentage of amount of loans closed for various purposes by Federal land bank system, based on a sample of the last 100 loans closed by each land bank before June 15, 1951-54

| Purpose | June 15, 1951 | June 15, 1952 | June 15, 1953 | June 15, 1954 |
|---|------------------|------------------|------------------|------------------|
| | <u>Percent</u> | <u>Percent</u> | <u>Percent</u> | <u>Percent</u> |
| To refinance real estate mortgages (includes refinancing of Federal land bank and Federal Farm Mortgage Corporation mortgages)----- | 43.8 | 43.3 | 43.9 | 47.7 |
| To refinance chattel mortgages, notes, and accounts----- | 10.2 | 11.0 | 11.7 | 11.7 |
| To buy real estate----- | 15.5 | 15.0 | 14.8 | 13.3 |
| Repairs and improvements to buildings and land----- | 13.7 | 15.3 | 14.6 | 13.5 |
| Other purposes, including purchase of livestock and machinery and purchase of stock in national farm loan associations----- | 16.8 | 15.4 | 15.0 | 13.8 |
| Total----- | 100.0 | 100.0 | 100.0 | 100.0 |

Farm Credit Administration

A substantial proportion of the proceeds of farm-mortgage loans made by life insurance companies are also used for refinancing purposes. Loan commitments for the second quarter of 1954 for 13 life insurance companies active in farm-mortgage lending showed the following percentage distribution according to purpose: (1) Purchase of real estate, 31 percent; (2) refinancing of real estate mortgages and sales contracts, 35 percent; (3) refinancing of non-real-estate debt, 17 percent; (4) repairs and improvements for land and buildings, 8 percent; and (5) other purposes, 9 percent.

Use of farm-mortgage loans to refinance non-real-estate debt generally appears to have leveled off this year although such loans still continue in fairly substantial volume. Some farmers have found that their non-real-estate debt was fairly heavy in view of reduced net incomes; they have shifted the

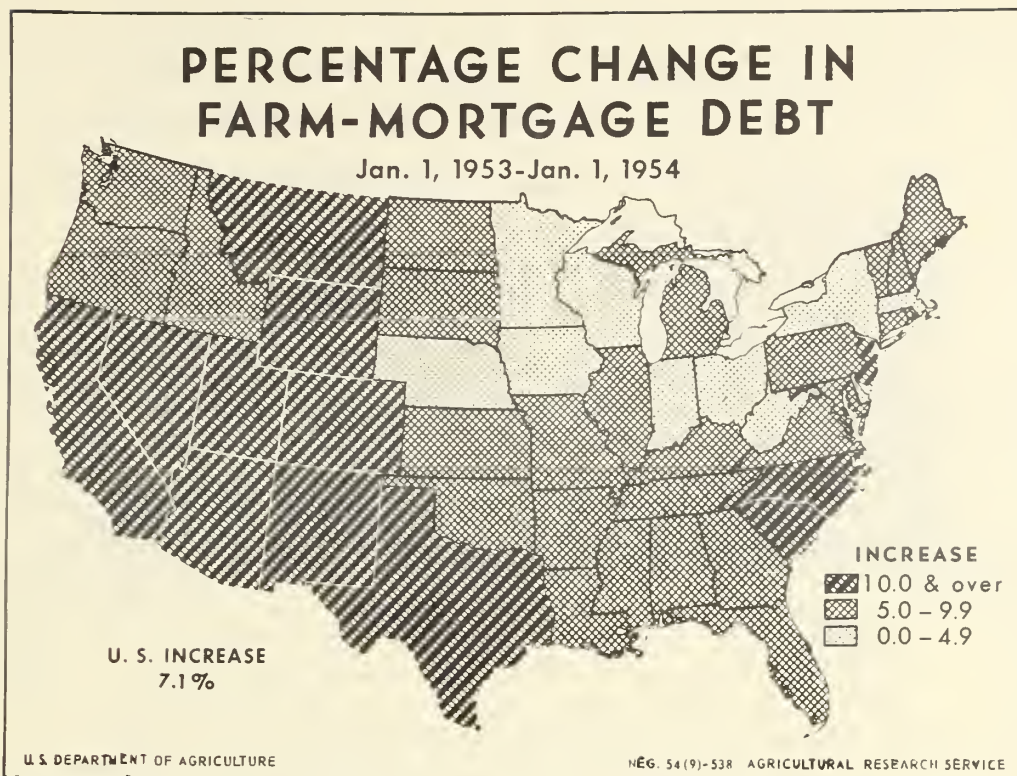


Figure 4

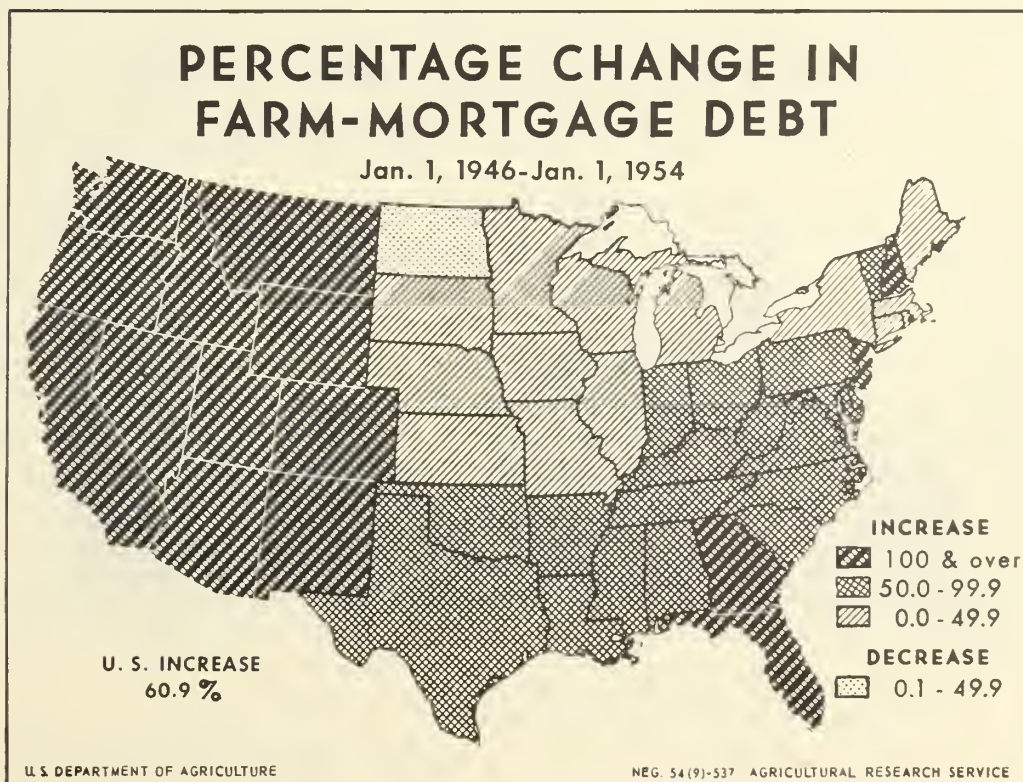


Figure 5

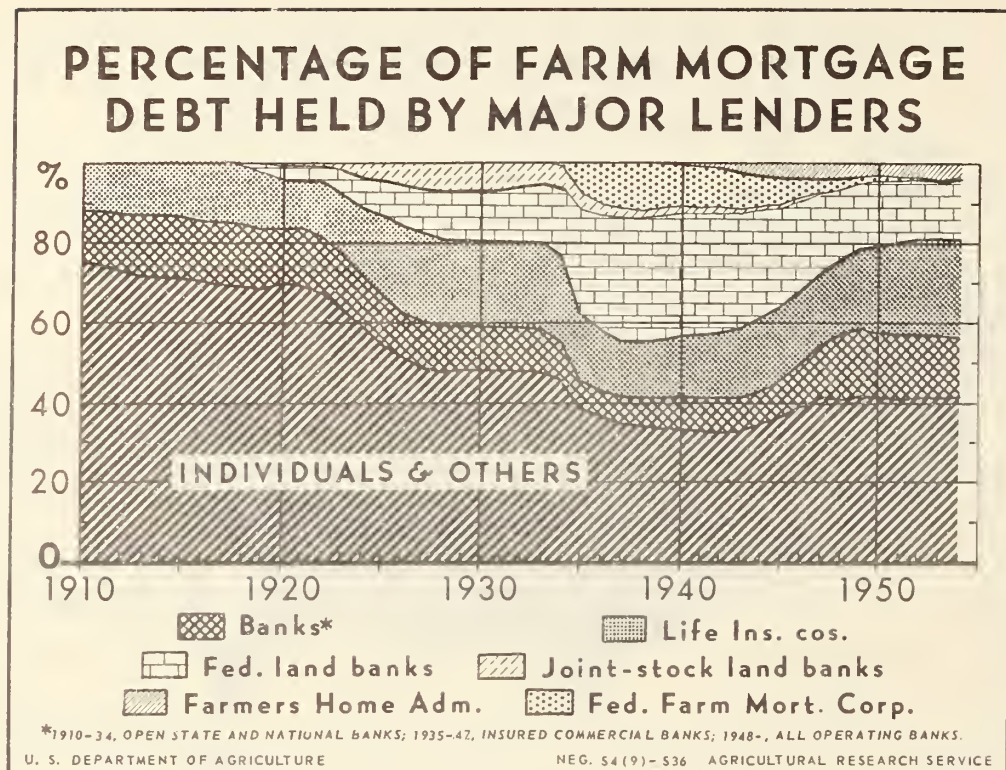


Figure 6

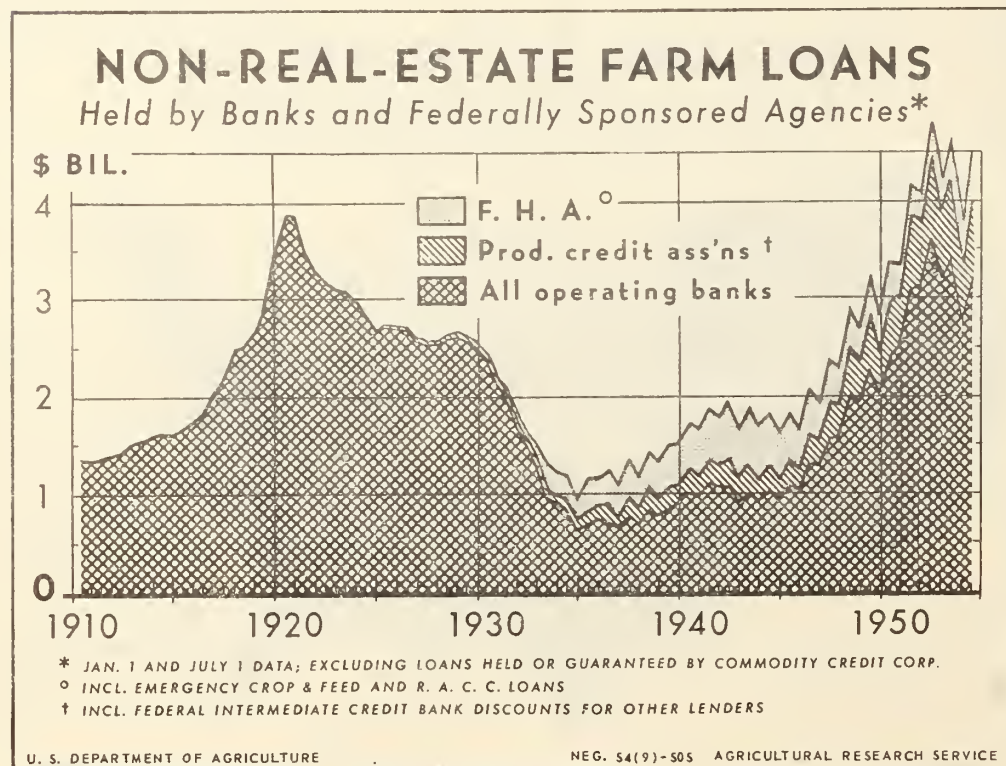


Figure 7

debt to real estate mortgages to reduce their annual payments. In some cases, non-real-estate lenders such as banks and production credit associations have asked farmers to make these shifts. In others, lenders have asked for real estate mortgages as additional collateral. In the last 2 years many farmers have completed adjustment of their financing to a lower level of prices and incomes, and it may be that use of farm-mortgage loans to refinance short-term debt will not increase in 1955.

Farm-mortgage money continued in good supply this year, and there was some increase in competition among lenders for loans in the better farming areas and for unusually good loans in all areas. The total amount of mortgages recorded in the first half of 1954 was only 2 percent less than in the first half of 1953, but there were considerable differences between regions and between lenders (table 4). Factors that influence the amount of mortgages recorded include: (1) A reduced volume of farm real estate sales which tend to lower the amount of mortgages recorded (particularly those by individual lenders), (2) lower farm incomes which make both lenders and borrowers more cautious, (3) refinancing of existing farm-mortgage debt and non-real-estate debt, which varies considerably between areas, and (4) varying practices of commercial banks in requiring real estate mortgages as additional collateral for carryover of operating loans.

In the first half of this year Federal land banks had an increase of 7 percent over the first half of 1953 in amount of loans closed. Factors responsible for this include interest rates which, in most land banks, were one-half of 1 percent to 1 percent lower than those of other lenders and development of increased interest in the land bank system through members of local national farm loan associations. Federal land bank loans cannot exceed 65 percent of the appraised "normal agricultural value" of a farm, and such values currently are substantially below the sale price of farms. These loans, therefore, are on a conservative level, but they are sufficient for many farmers who wish to refinance indebtedness or to finance farm improvements.

During the first half of 1954 the amount of farm mortgages recorded by insurance companies was 6 percent less than in the first half of 1953, However, insurance companies generally were willing to make higher appraisals and larger loans than were the Federal land banks. Also, more of their loans were used to finance farm real estate purchases. On the other hand, a smaller proportion was used to finance farm improvements and purchases of machinery and livestock. In the first half of 1954 insurance companies generally continued to charge interest rates which were usually one-half of 1 percent higher than land bank rates in areas where land bank rates were 4 or 4 1.2 percent.

The 8-percent increase in farm mortgage recordings of miscellaneous lenders reflects, in part, increased real estate lending by the Farmers Home Administration, which is included in the miscellaneous group. The

Table 4.- Amount of farm mortgages recorded -- percentage change first half of 1954 from first half of 1953 by region and type of lender

| Region | Type of lender | | | | | Total |
|--------------------|--------------------------|------------------------------------|------------------------|------------------|--------------------------|-------|
| | Federal land banks | Commercial and savings banks | Insurance companies | Individ- uals | Miscel- laneous 1/ | |
| | | Percentage change | | | | |
| New England | 31 | -16 | 2/ | -40 | -33 | -20 |
| Middle Atlantic | 17 | 10 | 13 | -18 | 34 | 2 |
| East North Central | 0 | -7 | 5 | -14 | 33 | -3 |
| West North Central | 3 | 11 | -9 | 8 | 6 | 2 |
| South Atlantic | 17 | 8 | 5 | 7 | 1 | 7 |
| East South Central | 28 | 6 | -18 | -6 | 16 | 3 |
| West South Central | -6 | -1 | -10 | 23 | 14 | 2 |
| Mountain | 27 | -10 | 5 | -11 | 56 | 7 |
| Pacific | 11 | -30 | -27 | -28 | -36 | -25 |
| United States | 7 | -2 | -6 | -5 | 8 | -2 |

1/ Includes Farmers Home Administration, mortgage companies, State and county agencies, and other miscellaneous lending organizations.

2/ Data inadequate for estimate of percentage change.

Farm Credit Administration.

total of direct FHA farm-ownership loans and direct farm-housing loans outstanding on June 30, 1954, was \$273 million, which compares with \$268 million at the beginning of 1954 and \$259 million on June 30, 1953.

Interest rates on farm mortgages began to soften about mid-1954. This decrease reflected the earlier reduction in interest yields on Government and corporate securities. Several life insurance companies have reduced their minimum interest rates on new farm-mortgage loans by one-half of 1 percent. It is expected that other companies will follow if interest yields on Government and corporate securities do not increase. In addition, some companies have raised per acre loan limits in the better farming areas. So far, reductions in interest rates by life insurance companies apparently have been generally limited to the better farming areas where the competition of lenders is greater, such as the North Central States and the Pacific Coast, and to particularly desirable loans in other areas.

Mortgage interest rates charged by commercial banks are largely unchanged from last year and no material change is expected next year. The cost of new direct farm-ownership loans of the Farmers Home Administration was raised from 4 to 4 1/2 percent in September 1954. Interest rates on mortgage loans of Federal land banks are unchanged from last year. The Columbia, S. C., land bank charges 5 percent, the Springfield, Mass., and Baltimore, Md. land banks use 4 1/2 percent rates. Other land banks charge 4 percent.

Principal repayments on farm mortgages (excluding repayments through refinancing) are apparently at a somewhat slower rate so far this year than they were in 1953. Lenders, however, report that delinquencies generally are not a problem and that farmers usually are meeting scheduled interest and principal payments on time. Reports from 16 life insurance companies holding 169,000 farm mortgages on June 30, 1954, showed only 700 mortgages with interest overdue 3 months or more on that date and only 100 other farm mortgages in process of foreclosure. Total delinquent and extended loans on June 30, 1954, in 10 Federal land bank districts (excluding the Houston and Springfield districts where delinquent installments are usually paid or the obligation therefor assumed by local national farm loan associations) were 4.8 percent of the total. This compares with 4.6 percent on June 30, 1953.

While mortgage payments are generally handled satisfactorily from the viewpoint of lenders, there seems little doubt that in many cases farmers are finding scheduled payments burdensome. This is particularly true in areas where drought has combined with lower prices to reduce farm income. Younger farmers, who frequently have smaller equities in their real estate, larger mortgages, and large amounts of non-real-estate debt, are more likely to be in difficulty.

No unusual collection pressure on the part of lenders is reported, and delinquent loans are handled on an individual basis. Lenders usually attempt to have the farmer pay interest, taxes, and insurance on mortgaged buildings, but they are said to be willing to extend or defer principal payments in individual cases when this appears to be necessary or desirable.

NON-REAL-ESTATE DEBT

Non-real-estate debt (excluding price-support loans) declined sharply last fall and winter. But the decline slowed up this last spring and summer. There are some indications that new borrowing is picking up this fall. It is tentatively estimated that total non-real-estate debt at the beginning of 1955 will be about \$6.9 billion, or about the same as on January 1, 1954. The debt on January 1, 1955, however, will be substantially lower than the \$7.6 billion outstanding at the beginning of 1953.

The sharp decline in debt during 1953 was largely related to the widespread price declines which caused caution in the use of credit, and particularly to the livestock situation which resulted in liquidation of loans and reduced new borrowing. Reduced acreage allotments for cotton and wheat generated less borrowing in early 1954 than in other recent years for.

seasonal crop production. Some of the forces that tended to reduce short-term debt still exist. But prices of cattle have stabilized and both borrowers and lenders appear to have more confidence now than last fall in the agricultural situation. Increased borrowing has been necessary in some instances to cope with the squeeze of lower incomes and fixed costs. In several areas, increased carryovers and emergency lending by the Government has tended to cause debt to expand.

During 1953, non-real-estate loans held by banks and federally sponsored agencies dropped 11 percent. But on June 30, 1954, loans of these lenders were only about 3 percent below the amount held on June 30, 1953 (fig. 7). Decreases, most of which were moderate, occurred in 29 States during this period. Declines greater than 10 percent were shown for only 3 States - Arizona nearly 14 percent, and Oregon and California not quite 11 percent each (fig. 8). For the major regions, the largest decline occurred in the West. Declines in the South and North Central regions were small (fig. 9). The Northeast showed a small rise in non-real-estate debt.

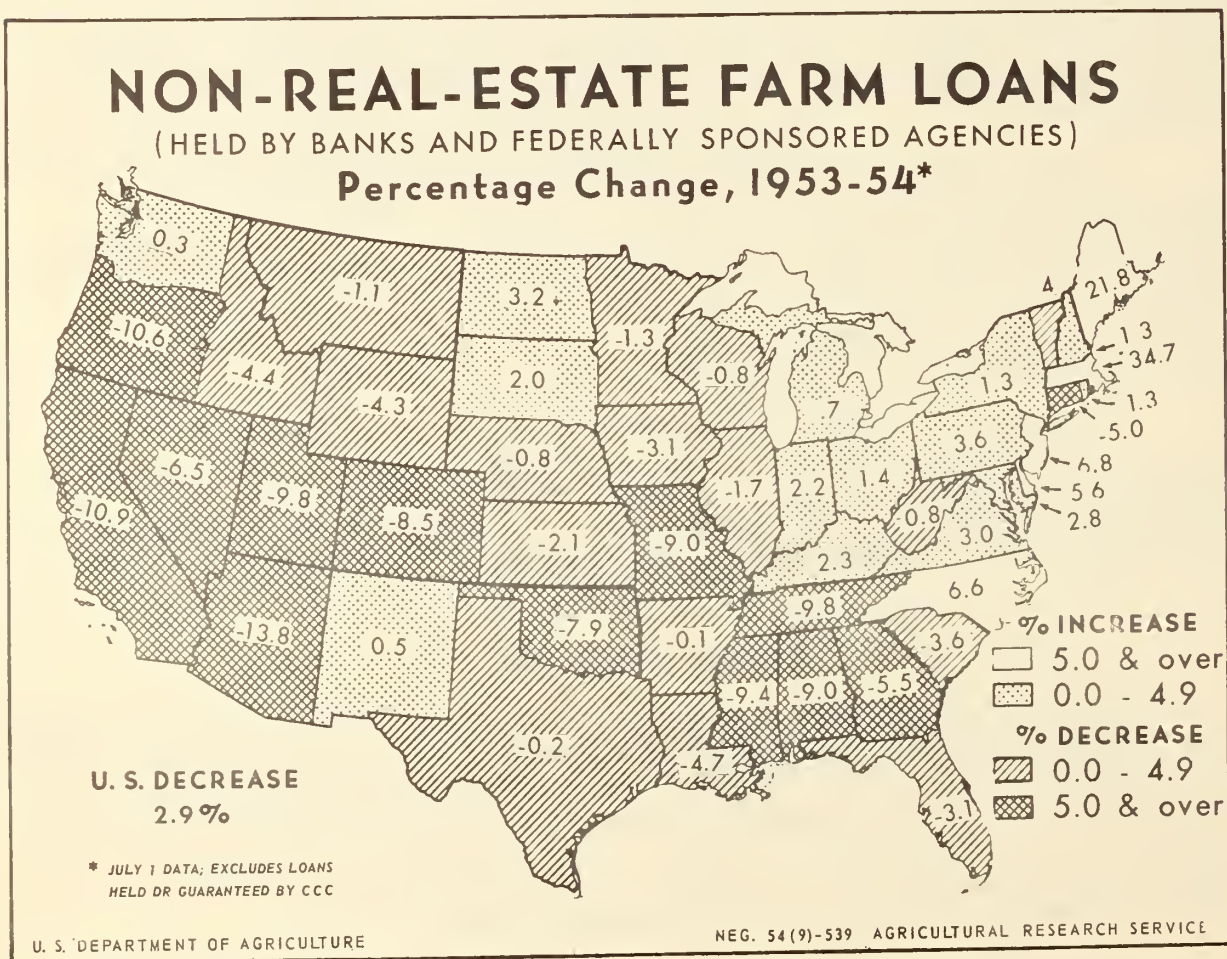
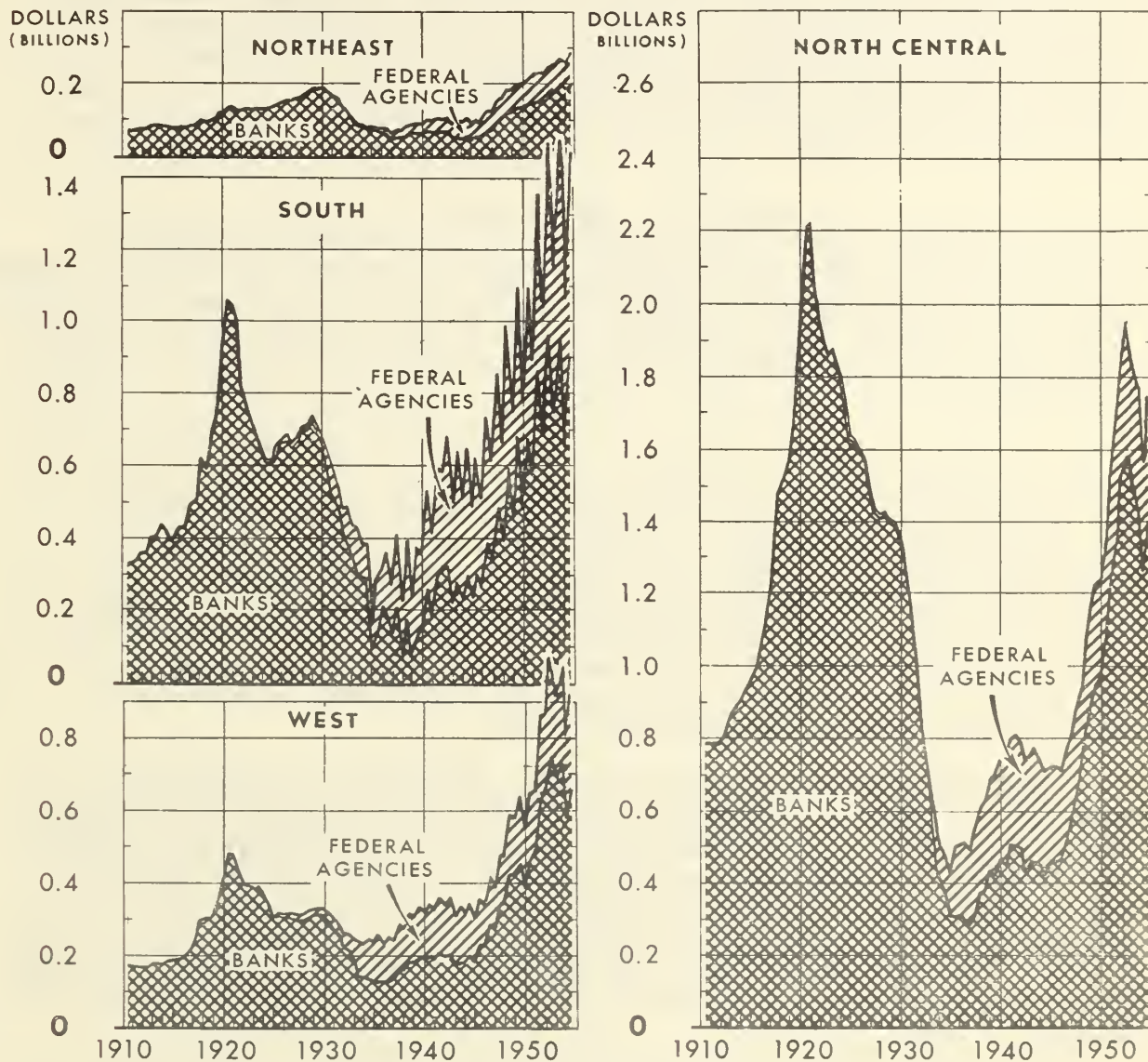


Figure 8

NON-REAL-ESTATE FARM LOANS

HELD BY BANKS AND FEDERALLY SPONSORED AGENCIES, BY REGIONS*



*ALL STATE AND NATIONAL BANKS PRIOR TO 1935; INSURED COMMERCIAL BANKS 1935 AND THEREAFTER
JAN. 1 AND JULY 1 DATA; EXCLUDING LOANS HELD OR GUARANTEED BY COMMODITY CREDIT CORPORATION

Figure 9

Where drought or price declines have made credit conditions particularly difficult, the Federal Government is making emergency loans. During the year ended June 30, 1954, the amount of "production emergency," "economic emergency" and "special livestock" loans made by the Farmers Home Administration totaled about \$93 million - the largest amount of emergency loans made in any one year since the mid-thirties. Emergency lending so far in the current fiscal year also is relatively heavy. By October 1, 1954, 1,551 counties in 33 States had been designated as disaster areas eligible for production emergency loans. In 1,179 of these counties economic emergency loans could be made. Special livestock loans may be made in all areas.

In 1955, the non-real-estate debt situation of farmers, as a whole, may not differ much from that in 1954. If crop acreages are further restricted, production costs, and non-real-estate credit, may be reduced. Amounts borrowed for consumption and capital expenditures will also remain relatively small in sections in which drought or low prices have substantially reduced incomes and have made farmers and lenders more careful in using and extending credit.

In many instances, however, farmers will need to borrow more in 1955 to cover expenses because of lower incomes in 1954 and continued high costs. This is expected to be the situation in parts of the Northeast and some other sections of the country. Slower repayment of loans, because of a prospective decline in income, will also cause outstanding debt to rise in scattered areas of the country. In the Corn Belt a slight increase in non-real-estate debt may occur because of a more stable cattle situation. Also, there may be some additional borrowing for fertilizer in 1955. In areas where the farm outlook is favorable or stabilized, an increase in credit for purchases of machinery may occur.

The supply of non-real-estate credit continues to be adequate in most areas and, in general, lenders have not become more restrictive in making loans to borrowers in good financial condition. Reductions in the debt of such borrowers probably have been caused more by the desire of borrowers than by any action of lenders. In fact, lenders in many areas, and particularly in the better farming areas, are trying to expand their volume of loans. Interest rates, which rose last year, have leveled off; for some lenders they have declined slightly. No substantial change in rates is expected for 1955.

Notwithstanding the generally good credit situation, lenders are now watching loans more closely than they did several years ago. They are more selective in making new loans because of the less favorable farm-income situation. It has become more difficult for the less efficient and more heavily indebted farmers to get credit. In areas where drought has curtailed income for several years even some of the larger and better farmers have accumulated debt to a level at which lenders feel little additional credit can be advanced. In some instances, lenders make loans only for operating expenses and sharply limit their loans for expansion and for capital expenditures. In other instances, farmers or ranchers are referred to the Farmers Home Administration for emergency financing.

Non-real-estate loans, because of the short term, apparently present more repayment difficulties than do real estate loans. Currently, signs of trouble are showing for some poultry and vegetable producers, and for dairy farmers who produce milk for manufacturing purposes. Actual and prospective credit difficulties, however, have been reported most frequently in sections of the South and Southwest that are suffering from drought. But to date, relatively few forced liquidations have been reported, and these have occurred largely where poor management and uneconomic units were involved. Usually, lenders have been renewing old balances and providing additional operating credit when possible. Nevertheless, many farmers and ranchers have had to resort to emergency credit from the Government to continue in business.

In the Southwest, and in other areas pinched by lower incomes and heavy costs, some farmers are refinancing short-term debts with longer term farm real estate loans. Often lenders require a real estate mortgage as additional security for renewing or making new non-real-estate loans. For the country as a whole, however, refinancing of short-term debts has not increased. In some areas where livestock is important, refinancing is reported to be less prevalent than immediately following the decline in cattle prices a year or more ago.

The volume of price-support loans outstanding to farmers at the beginning of 1955 is expected to be about \$2.1 billion, in contrast to \$2.4 billion on January 1, 1954. This decline will likely result from fewer loans on 1954 crops. Crop production in 1954 is below production in 1953 mainly because of drought and acreage allotments.

LIQUID FINANCIAL ASSETS

Little, if any, change is expected in the total amount of liquid financial assets owned by farmers on January 1, 1955, as compared with a year earlier. However, the \$19.0 billion of these assets that farmers owned at the beginning of 1954 included about \$10.2 billion of currency and demand deposits. These current funds of farmers are expected to decline to about \$9.8 billion. Time deposits and United States savings bonds are expected to increase from the \$8.8 billion owned at the beginning of 1954 to about \$9.2 billion on January 1, 1955.

A decline in currency and demand deposits owned by farmers is expected for several reasons. Total farm production expenditures have declined slightly and this reduces the need of farmers for funds to use in their current operations. Because of drought and lower incomes, many farmers have not been able to maintain their current funds at former levels. Moreover, it is expected that farmers will obtain a smaller volume of price-support loans this fall than they obtained last fall, because of smaller crops of cotton, wheat and corn. The exceptionally large volume of such loans obtained last fall is believed to have built up the demand deposits of farmers to a higher level on January 1, 1954, than was normal for that time of the year. Ordinarily, many farmers who obtained such loans would not have received the proceeds of their crops until later in the marketing season.

Data for the first 8 months of 1954 indicate that farmers are continuing to increase their holdings of time deposits and United States savings bonds. The increase in farmers' holdings of these assets during 1953 and 1954, a period when farm income was falling and many areas were severely affected by drought, apparently was made possible by reductions in expenditures. Farm expenditures for machinery, livestock, and farm improvements have been reduced considerably and many farmers, particularly those in drought areas, have also cut down on family living expenditures. These reductions have been made partly because farm income has fallen and partly because earlier expenditures had provided much of the machinery, livestock, and improvements that farmers needed or desired. Also, after conditions became less favorable in agriculture, many farmers felt that they needed larger financial reserves.

Probably the indicated increase in farmers' holdings of time deposits and United States savings bonds, and the expected decrease in their holdings of currency and bank deposits, will continue in 1955.

A study made in Virginia several years ago showed that at mid-1949, about 60 percent of the commercial farmers in that State had financial reserves valued at less than \$500.^{1/} Many of the smaller farmers had no bank accounts or United States savings bonds. In general, the larger the net worth of the farmer, the greater was the percentage of his assets that consisted of financial reserves. Nearly 90 percent of all financial reserves owned by commercial farmers in Virginia at that time was held by those whose net worths amounted to \$10,000 or more, and nearly 40 percent was held by those whose net worths amounted to \$50,000 or more. Virginia is not typical of other States in many respects. But it appears probable that, in other States as well as Virginia, the bulk of the financial reserves is held by a minority of farmers whose wealth is considerably above average for farmers of the State. Thus the growth in time deposits and United States savings bonds owned by farmers, previously mentioned, may reflect changes in the financial situation and policy of well-to-do farmers more accurately than that of the smaller farmers.

FARM TAXES

Taxes levied on all farm property in 1953 (payable largely in 1954) were about 3 percent higher than in the previous year. This is the 13th consecutive year that they have increased. Taxes on farm real estate increased about 5.4 percent, whereas those on personal property decreased about 6 percent. The decline in levies on personal property was the first since 1933. The prospect for 1954 is that total property levies (payable largely in 1955) will be about 4 percent greater than in 1953. This will result from an expected 5-percent increase in real estate and a 3-percent decrease in personal property taxes.

^{1/} Garlock, Fred L., and others, Financial Structure of Virginia Agriculture, U. S. Dept. Agr., Agr. Info. Bull. 97, February 1953.

Federal income taxes payable by farmers in 1955 on 1954 income are expected to show a decrease of about 18 percent from the preceding year.

Three important factors contribute to this decline. One is the decrease in farm income, which is expected to bring taxable income of farmers for the full year 1954 down about 5 percent from that of 1953. Because of the graduated nature of the Federal income-tax structure, a decline of income of this magnitude, in the absence of changes in tax rates, would cause Federal tax liabilities of farmers to drop by approximately 7 percent.

Second, is the reduction in Federal income tax rates effective on 1954 income. The first bracket was reduced from 22.2 percent to 20.0 percent--or about 10 percent. Reductions of somewhat greater magnitude were made in other brackets in the lower income range.

A third development that will contribute to a reduction in farmers' liabilities for Federal income taxes on 1954 income is the newly enacted Revenue Code of 1954. Liberalized depreciation rules on new farm machinery and buildings, and the privilege of charging off as expenses certain outlays for soil or water conservation, are two features that will save farmers money on their 1954 income taxes.

INSURANCE

Expenditures for farm property insurance probably will be from 5 to 10 percent higher in 1955 than in 1954. Although, in general, farm-property values and replacement costs have not risen in 1954, some farmers will increase their property insurance in 1955 to more nearly cover current replacement costs. For several years, amounts of insurance have failed to keep step with the rise in property values, so that underinsurance is prevalent. As policies (mainly for 5-year terms) are renewed for increased amounts, the higher coverages will bring higher insurance costs. However, the assessment rates paid to farmers have not varied much in recent years.

Information is not available on farm property insurance written by all classes of insurance companies or for all types of farm property that are insured, but insurance carried by farm mutual fire insurance companies (some of which also write windstorm insurance) has increased steadily in recent years - 12 percent in 1952 and 7 percent in 1953. Assessment rates paid by farmers to these companies averaged about 25.6 cents per \$100 of insurance in force in 1953, compared with 24.9 cents in 1952.

In 1953, losses paid by the farmers' mutual fire insurance companies amounted to about 13.8 cents per \$100 of insurance, compared with 14.1 cents in 1952. In 1953, operating expenses amounted to 9.4 cents, compared with 8.6 cents in 1952. Therefore, the total cost (losses plus expenses) amounted to 23.2 cents per \$100 of insurance in 1953, compared with 22.7 cents in 1952.

The 1954 amendments to the Social Security law extend Federal old-age and survivorship insurance (OASI) to about 3 million farm operators and an additional 2 million hired farm workers. Operators with net earnings from farming of \$400 or more per year will be required to pay a tax of 3 percent on their 1955 earned incomes, up to a maximum of \$4,200 (so the individual tax ranges from \$12 to \$126). A farmer will also deduct 2 percent as social security taxes from the wages of each hired worker to whom he pays \$100 or more in 1955. He will add an equal amount for his employer's contribution, and forward the total to his regional Director of Internal Revenue.

For each year since 1950, farmers have paid this tax on about 700,000 regularly employed farm workers. For 1955, about \$40 million in taxes probably will be paid by farmers as their share of the tax, on a total of about 2.7 million hired farm workers. In early 1956 (by April 15) farmers will pay about \$150 million in Social Security taxes on their 1955 earned incomes. In the latter half of 1956, a few operators will have qualified and will begin drawing OASI benefit payments. It is now essential that farmers consider OASI in any plans they make for retirement.

Legal liability risks of farmers have increased in recent years. Increased mechanization and greater use of automobiles and trucks have increased the chances that a farmer or hired help will become involved in accidents. Because of greater equities in their farms, there is more risk of farmers being sued by employees or by others and of being sued for higher amounts. Therefore, liability insurance is more necessary for farmers now than ever before.

In all States, farmers are subject to automobile financial responsibility laws, which vary in stringency. An automobile liability policy for adequate amounts will preserve a farmer's driving status and protect him from inconvenience and financial loss in the event of a lawsuit. An employer's liability policy, or even better, a workmen's compensation insurance policy, gives protection against losses from suits by employees. The latter policy guarantees payments to injured workers; but if one of them should elect to sue the farmer, the latter would be protected as under the employer's liability policy. A farmers' comprehensive personal liability (FCPL) policy provides premises protection against the risk that a visitor will be injured or that the latter's property will be damaged. It provides liability protection in connection with the use of tractors and against possible contamination of products held for sale, and a limited amount of liability protection under a leasing agreement. By endorsement, it may also be made to cover liability to employees, provided the State law does not require that farm employment be covered by workmen's compensation insurance.

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